



VINCENT C. GRAY  
MAYOR

October 16, 2012

Anthony A. Williams  
Chairman  
District of Columbia Tax Revision Commission  
c/o Federal City Council  
1156 15<sup>th</sup> Street, NW Suite 600  
Washington, DC 20005

Dear Chairman Williams:

As you know, I recently proposed B17-747, the “Technology Sector Enhancement Act of 2012.” The legislation is designed to advance one of the most important goals of my administration: to grow and diversify the District’s economy.

Although we must continue to build on the success of existing economic sectors, only by fostering new high-growth industries of the future – such as the District’s burgeoning technology sector – will we be able to sufficiently grow and diversify our economy to create more jobs for our residents, expand revenue to fund important priorities, and prepare for the inevitable downsizing of the federal government that will disproportionately impact our region.

I am gratified that today the Council approved this important legislation; however, I was disappointed that the Council removed a central provision of the bill – a narrowly-targeted preferential capital gains rate for DC residents who found or invest in technology startups. In my view, this action fails to recognize the significant benefit that will accrue to the city by encouraging technology investments.

Currently the District collects practically no revenue from such investments because when DC residents prepare to incur significant tax liability all too often they move to a state with a lower capital gains rate and take their companies with them. By keeping these individuals and companies in the District – even at a reduced tax rate – we keep their jobs, their economic impact, and their tax revenue here in the city. As I have often said, 3% of something is better than 8.95% of nothing.

I appreciate that the Council has asked the Tax Revision Commission to review the capital gains provision it struck from my original bill and I request that the Commission expedite its review.

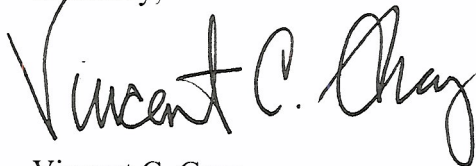
I believe the following reasons make a convincing argument in support of reducing the capital gains rate to 3% for technology investments in District-based technology startups:

- **Regional competitiveness.** The provision would reduce the capital gains rate for the sale of stock by DC residents in qualified tech companies to 3% from the top rate of 8.95%. Virginia offers a 0% capital gains rate for certain tech investments and offers up to \$50,000 in angel investment tax credits per year; and Maryland's top rate of 5.5% is also sizably lower than DC's. A preferential rate is the best way to attract regional investment in startup business growth and jobs to the District of Columbia. Too many startup entrepreneurs and investors are lured to surrounding jurisdictions by the startup-friendly tax treatments of our neighbors.
- **Access to capital.** A 3% rate will help DC-headquartered technology businesses access critical growth capital by incenting DC residents to invest;
- **Retain technology employees and investors.** A 3% rate would encourage DC residents who are technology employees and investors to remain resident in the District of Columbia when their company succeeds, and continue to provide their vital talents and valuable income taxes to our city.
- **Recycle local capital gains.** The provision would encourage investors and early-stage tech employees with windfall capital gains to remain residents of the District and to reinvest those funds in other District-based entrepreneurial endeavors, sustaining future small business development and jobs.

Critics of this provision have argued that the city will lose revenue in the future if it is adopted; however, this view assumes technology investors will remain in the city and pay the current capital gains rate – which history suggests will not be the case. And the District's lack of competitiveness for scarce investor dollars now could be a much bigger source of lost future revenue, local businesses, and jobs if we do not seize the momentum we have now. Now that the District has become home to a growing number of successful technology startups, I am particularly concerned that we could soon lose our best entrepreneurs and investors to neighboring jurisdictions that offer lower tax rates.

I welcome the opportunity to discuss these points with the Commission, and the rationale behind this proposal, should you desire. Thank you again for your service to the District of Columbia. I look forward to receiving the Commission's report on this issue that is so critical to our city's future.

Sincerely,

A handwritten signature in black ink that reads "Vincent C. Gray". The signature is fluid and cursive, with the first name "Vincent" being the most prominent part.

Vincent C. Gray